

## 16.02 Discontinued Operations (“De”)

When an entity decides to dispose of a portion of its business, it will determine if it should be accounted for as a disposal of assets or discontinued operations. (ASC 205) A disposal of a component of an entity or a group of components is reported as discontinued operations if the disposal represents a **strategic shift** that will have a significant effect on the entity's operations and financial results.

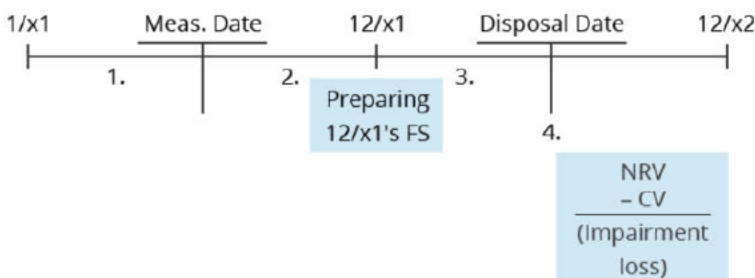
Disposal of a component or group of components would be a **strategic shift** when:

- The entity is discontinuing operations in a major geographical region
- The entity is discontinuing a major product line
- The entity is disposing of a significant investment accounted for under the equity method
- Other major “parts” of an entity

When reported as discontinued operations, the assets of the component or group of components are reported separately in the asset section of the balance sheet and identified as assets related to discontinued operations. Liabilities of the discontinued operations are likewise separately reported in the liability section of the balance sheet. In addition, the operations of the component or components, and any gains or losses on disposals of assets and settlements of liabilities, are reported separated on the income statement, *net of tax*, after income from continuing operations and before net income.

A component or group of components that qualifies as a strategic shift, will be reported in discontinued operations if it is *disposed of* by sale or by some other means during the period; or if it qualifies to be classified as “held for sale”. A component qualifies as *held for sale* if *all* of the following criteria are met:

- A plan to sell the component has been committed to by those with the authority to do so.
- The component is in salable condition and available for immediate sale
- Actions to complete the plan for disposal have been initiated and a buyer is being actively sought
- The sale is probable and expected to be completed and to qualify for recognition within one year
- The price at which the component is being marketed is reasonable
- It is unlikely that significant changes will be made to the plan or that it will be withdrawn.



## Special Items to Note

- Expected gains or losses from operations in future periods are **not** included until the period they occur.
- The expected loss on a disposal may, however, indirectly be recognized through **impairment testing** that causes the write-down of a component to its fair market value. Long-lived assets to be disposed of by sale should be measured at the lower of carrying amount or fair value less the cost of disposal (NRV). An asset held for disposal **CAN be written up or Down** in future periods as long as the write-up is never greater than the carrying amount of the asset before the impairment.
- Gain or loss is reported net of taxes with disclosure of the tax effect on the face of the income statement. EPS disclosure is also required (DE).
- Disposals of assets or asset groups that are **not** components are reported in continuing operations and included in the determination of operating profit.
- For *comparative purposes*, the income statement must be adjusted retrospectively to enhance comparability with the current year's income statement for all prior years presented. The amounts are netted into one figure for each year presented, "Income (loss) from Discontinued Operations". The Balance sheet of previous periods must also reclassify assets and liabilities of a discontinued operation.
- Regardless of when during the period the decision is made to discontinue a segment, all results of operations for that segment, as well as any gains or losses on the disposal of assets during the period, are recognized as discontinued operations.
- The costs of termination benefits, lease termination, and consolidating facilities or relocating employees related to a disposal activity that involves discontinued operations should be included in the results of discontinued operations

## Disclosures

- Description of the reasons for the disposal; the means of disposal; and the expected date
- Carrying amounts of assets and liabilities included in the disposal group
- Gains and losses on assets held for sale along with an indication as to where on the income statement they appear
- Any revenues, expenses, and pretax profit or loss from discontinued operations and where it is presented on the income statement if not presented separately
- The business segment in which the assets that are part of the disposal group are reported  
= **Net Income ("N")**